Historic Preservation and Smart Growth

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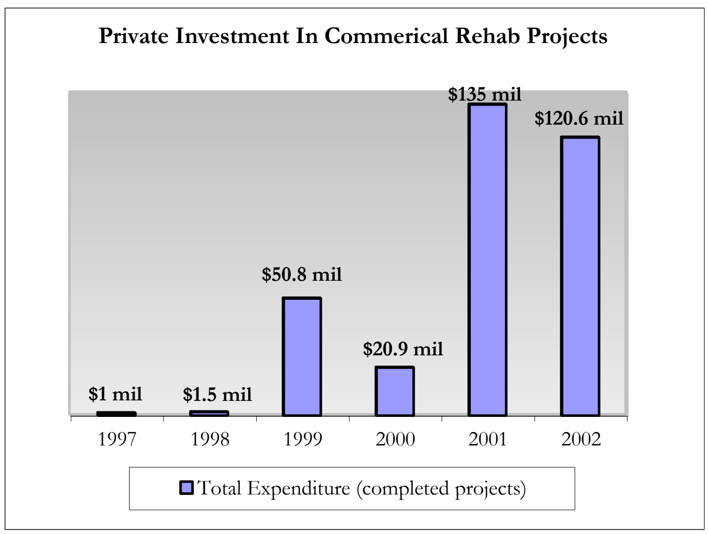
At the heart of Maryland's Smart Growth programs and policies lies the goal of community revitalization. Across the state, there are older towns and cities that have languished or declined after decades of population loss to new suburbs. Abandoned buildings are just one consequence of this migration; many neighborhoods also are grappling with crumbling infrastructure because their shrinking tax base cannot keep up with these needs.

The State has adopted many incentives to try to reverse this trend by generating private sector enthusiasm for local revitalization efforts. Among these tools, the **Maryland Heritage Preservation Tax Credit** is clearly one of the most effective.

The historic preservation tax credit has achieved an extraordinary track record in a very short time, surprising even its biggest proponents. The program provides tax credits equal to 20% of the rehabilitation costs for historic homes and buildings. But the public benefits of this tax credit extend far beyond the preservation of historic landmarks and the unique character of individual neighborhoods. Many of these projects have proved to be powerful catalysts for broad-based redevelopment in older communities and in distressed neighborhoods that have stubbornly resisted other revitalization efforts.



The program has enabled the State to leverage substantial private dollars, as well as federal historic tax credits. Commercial projects, in particular, have had an enormous impact, bringing jobs and retail activity back to vacant buildings and creating new streams of tax revenue. The commercial rehabs completed in 1997, the first year of the tax credit, involved just $1 million in private investment. By 2002, private spending on completed projects topped $120 million for the year, with a cumulative total of about $330 million spent to refurbish and reuse historic buildings in 18 jurisdictions over the life of the program. Early research has shown that the ongoing sales, income and property taxes these projects generate for the State and local jurisdictions often far exceed the costs of this modest short-term investment.

The benefits do not end there. A single high-profile project can provide the psychological boost and momentum needed to rejuvenate an entire neighborhood or business district, especially when combined with other State support, such as Community Legacy grants and neighborhood business loans. By encouraging historic preservation, the State also is helping older communities maintain a sense of place and the aesthetic qualities that make them unique and desirable places to live.

A Smart Growth Success Story

Across Maryland, from the Allegheny Mountains to the Eastern Shore, there are communities with heartening stories to tell. In **Easton**, home of the annual Waterfowl Festival, Andrew and Liz Evans have restored an 18th century building in the heart of downtown – now called the Inn at Easton – to its former glory as one of the most prominent homes on Maryland's Eastern Shore. Nearby, the historic Easton Armory is being renovated as office space.


The Inn at Easton

In **Frederick**, the newly refurbished Francis Scott Key hotel has reopened as an upscale apartment house within walking distance of a new MARC commuter rail station. And the boarded-up headquarters of a farmers' co-op in Frederick's historic district has been rehabbed to house Cannon Hill Logistics. The firm's decision to move from a suburban industrial park to downtown Frederick is boosting residential rehabs and the city's ongoing efforts to redevelop the Carroll Creek Park and East Street areas.

Cumberland, the state's first Certified Heritage District, is another major beneficiary of the program. In 2001, Century Business Services, a company with deep roots in the community, finished a multi-million dollar rehab of a century-old clothing store that had closed next to its offices on the downtown pedestrian mall. The fast-growing company needed more space, but would not have been able to remain downtown if not for the opportunity to renovate the adjacent building with historic tax credits. Today, CBIZ occupies both buildings with about 140 employees, at least 50 of them new to downtown Cumberland.

The redevelopment seeded by this tax credit has been especially critical for **Baltimore**, which is struggling to reverse a 50-year population decline and the loss of countless jobs to the suburbs. In the last three years, developers have committed more than $260 million to refurbish commercial buildings in every corner of the city.

Among the more notable projects is **Montgomery Park**, where construction is winding down on a set of buildings that had sat vacant since 1985. This art deco landmark, a former catalog warehouse, officially reopened in 2002 as a massive business center in southwest Baltimore. Montgomery Park's first tenant, the Maryland Department of the Environment, moved in last summer with about 900 employees, followed by the Maryland Lottery with another 175 employees. This year, NCO Group, a call-center company, is expected to move at least 600 of its workers to the complex, which has been billed as competitive with suburban office space in size and parking availability.

Montgomery Park in Baltimore

Tide Point, the former Procter & Gamble soap factory on the harbor's west side, has had similar employment impacts. It reopened as a high-tech office complex in 2001 and today is bustling with 1,100 employees, including those of developer Struever Bros. Eccles & Rouse. Beyond its economic development benefits, this $70 million rehab project also has boosted property values in nearby Locust Point, a close-knit neighborhood where the median home price surged 44% between 2000 and 2001 alone.

Across the harbor, a similar phenomenon is happening in Canton, which has seen an explosion of redevelopment on the heels of one of the first commercial rehab projects to tap the historic tax credits. **The Can Company**, a late-19th Century can manufacturing plant, sat vacant for a decade before it was redeveloped into office space, restaurants and shops in the late 1990s. The $19 million renovation came at a critical time for Canton, a working class neighborhood where the factory had gone from being the major employer to a decrepit eyesore.

O'Donnell Square in Canton

Today, about 750 people work at the site; Canton has a Safeway – one of the first new supermarkets in the city in years; and several large townhouse and mixed-use developments are under construction, with older rowhouses being rehabbed on virtually every block.

Between 1998 and 2001, the median home price in Canton nearly doubled – from $66,000 to $128,875. In 2001 alone, 466 homes were sold, more than twice the number of sales in any other Baltimore neighborhood. In fact, real estate activity has been so strong in Canton that it is spilling into the neighboring community of Patterson Park, where rehabs helped boost the median home price to $103,273 in 2001, up from $60,100 in 1998.

More recently, there have been encouraging signs of a rebirth for Baltimore's historic **Westside**, the focus of a high-profile redevelopment initiative in a 24-block area linking the University of Maryland, Baltimore, and the central business district. Again, it began with a major tax-credit rehab project – the conversion of the abandoned 1924 Hecht Company department store into the Atrium Apartments, which opened in 2001 with 173 units.

Since then, the stately Congress Hotel has been renovated with apartments and commercial space, and the former Stewart's department store has been converted into an office building. Last summer, Bank of America broke ground on another historic tax credit project, a 394-unit apartment and retail project called **Centerpoint**, and work began on the redevelopment of the long-shuttered **Hippodrome** Theater into a state-of-the-art performing arts center.

Just west of those projects, the University of Maryland is in the midst of its own building boom. Last year, UMB opened a new law school and law library, and other projects, including new student housing, are on the horizon. City leaders are more confident than ever that the wave of redevelopment transforming the Westside will restore its former luster after decades of neglect and decay.

Bank of America's Centerpoint

The Bottom Line

While it is too early to try to quantify the full economic impact of the historic tax credit program, at least one independent study has demonstrated clear fiscal and economic benefits from two of the earliest rehab projects – the Can Company in Baltimore and CBIZ in Cumberland. The study, conducted in 2001 and posted at http://www.preservemd.org/txcrstudy.pdf, evaluated everything from construction activity and property values to sales tax revenue. Among the highlights:

In Canton, the number of building permits pulled between 1998 and 2000 jumped three-fold from the 1993-1996 period, and the dollar value of that construction more than doubled. By 2001, the rehab of the Can Company itself had added $10.6 million to Canton's property tax base and overall, the neighborhood's assessed tax base increased by nearly 18% between 1997 and 2001. In addition, State tax revenue from construction work covered about three-fifths of the tax credit payment *before* it became payable. Over time, income and property tax revenue from the Can Company's ongoing operations are projected to bring the State $3.65 for every dollar of tax credit expense.

In Cumberland, the CBIZ rehab added $1.5 million to the assessed value of that building from its original assessment at $164,700. The expansion enabled the company to add about 30 employees to its Maryland operations, increasing the payroll – and taxable income – by nearly $1 million that first year. When the State's upfront investment in the CBIZ rehab is compared with the long-term revenue from sales, property and income taxes, the project is expected to translate to $1.85 of revenue for every dollar spent on the tax credit.

Another important finding of early research is that many large-scale rehab projects would not be happening without historic tax credits. The program's success stems largely from the fact that the credit is refundable, meaning that developers can receive its full value as soon as they complete their rehab work. That immediate cash flow restores equity to their balance sheets, reducing the risks that have made lenders avoid redevelopment in blighted areas in the past. Among the many incentives Maryland has employed to encourage local revitalization efforts, this program is one that has produced immediate and tangible results.

Historic Preservation Tax Credits

- To qualify, a building must be listed in the National Register of Historic Places; be located in a historic district listed in the National Register; be located in a local historic district or certified Heritage Area and be certified as contributing to the area's significance; or be designated as historic under local ordinance.
- An income tax credit worth 20% of the eligible rehabilitation costs is available for both homes and commercial buildings. A per-project cap limits reimbursement to $3 million. The tax credit is refundable, meaning the money is available in the first year after a project's completion.
- The program is scheduled for a "sunset review" on June 1, 2004, unless otherwise directed by the General Assembly.

For more details, call 410.514.7628 or visit www.marylandhistoricaltrust.net. For general information about Smart Growth incentives, call the Governor's Office of Smart Growth at 410.974-2300.